

Why Gold Dinar in International Trade as Medium of Exchange: Descriptive Analysis of History of Gold Money, Trends, Perspectives and Implications

Ramo Palalic, Narela Bajram

Faculty of Economics and Business \ Administration, International University of Sarajevo

E-mails: rpalalic@ius.edu.ba, ramopal@gmail.com, narela@ius.edu.ba

Abstract

This paper argues certain perspectives of using Gold Dinar in bilateral or multilateral exchange between any nations worldwide. It is to show stability and security of the trades where no one is negatively affected by fluctuations if merchandises were exchanged in a particular currency. Globalization and advancement in IT had a huge impact on the world's economy in general, and many nations suffer from it while others become richer and richer. Therefore it is urged to find a better solution for the present and the future generations. It is obvious that something is not compatible in all those things. In recent times many scientists and Islamic scholars stress on importance of gold standard and Gold Dinar as a medium of exchange which a few countries have already introduced. It is the prime time where all Islamic scholars, economists, professors and any other contributors should be involved to come up with the best alternative to current fiat money.

After the Malaysian and Indonesian crises in 1997-98 it indeed has happened that many of the aforementioned are involved to search the way out of this turbulent economic era. In this regard, we will try to explain fundamentals of Gold Dinar or gold money since the ancient time where exchange was either in dinar (gold) or dirham (silver). In addition it will be shown possible implications whether are permanent or temporary issues in international trade.

Others, like some statistical data will be introduced throughout the history until today. This paper is divided into several parts like introduction, historical background of the gold, statistical facts of the gold money/Gold Dinar, fiat money in brief, benefits and disadvantages of Gold Dinar as well as fiat money, limitations and further research and conclusion.

Keywords: gold, Gold Dinar, silver, dirham, international trade, history, bilateral trade, multilateral trade, currency, nations,

1.INTRODUCTION

When we mention Gold Dinar, or gold money we cannot neglect the fact that this dates back since ancient time and nowadays is being put aside as a possible solution for the world economy to be a future perspective. Why gold as a money? If we get back in the ancient time, during the last Prophet p.b.u.h., we will find out that he has described money with its features as following:

Precious metals or other commodities as described above, money with intrinsic value,

Money located within Allah's creation with value assigned to such money by Allah Most High Himself, Who is the Creator of wealth. (I.N. Hosein, 2007, pg 16).

One of the reasons why the gold money has been removed from the trade is that the barter from early times proved to be insufficient so the money was being used to facilitate trade (N. A. Siegfried, 2001).

As we know that every coin has its two sides this paper will introduce a reader with main principles and its benefits of using gold in international trade as well as implications that may come true.

So, this paper consists of eight main parts. The first part is introduction. Second one is a brief literature review regarding Gold Dinar.. The third part is about its historical background of the gold money throughout the history since ancient time. It includes its roots of Gold Dinar its facts via history. In the fourth part we are going to try to prove the gold as a real wealth which has its intrinsic value from early centuries until today. Data on Stability of Gold Prices will be introduced. The fifth part argues the fiat money in short and benefits and disadvantages of gold money and the paper money. The sixth part is about Usage Gold Dinar in Bilateral and Multilateral Trade. Then we will see the limitation of the research and possible future mining as the seventh part. And finally, in eight part we are going to conclude briefly the stand about Gold Dinar or gold money as a possible solution in international trade between any nations around the globe.

1.1.Literature Review

As any think in this world has its two sides, positive and negative, beautiful and ugly, worth and useless, etc, usage of the Gold Dinar in nowadays varies depending on how people sees things. There were many books and articles been written on this topic where discussion has taken place and both "opposers" and so called dinarists³. The time has been proved as

³ Dinarists have been described as those who promote use of gold dinar especially among Muslim countries

rude and very hard for the world economy as a whole. One may argue that is because of the world disorder caused by different things. Others might say that is because of the total world's debt circulating between countries, especially the biggest economy in the world, the USA. Also, it may be reasonable to say that it is happening because of the unjust monetary system based on the Interest (Usury), which is from the Islamic perspective strongly prohibited and this has caused all of the chaos in this world.

Recent time has been full of discussions especially when Malaysian financial crises happened. From that time onward, Malaysian's experts, prominent economists and professors, as well as professors in Islamic areas (especially in the field of fiqh) put this event as study to be researched and solution need to be found. In this arena we have many different views regarding the Gold Dinar to be introduced as a medium of exchange.

Meera (2002) in his book Islamic Gold Dinar promotes an idea that returning back to the Gold Dinar is a solution for the current world financial chaos. He argues that current fiat money has capability of creating itself alone. Which may imply that today we have electronic money recorded somewhere on the binary as a part of memory in the computer. On the other hand, Z. Hasan, (2008) stands that introduction of the Gold Dinar is not idea that will work. One of the reasons he poses is that gold standard does not attain internal or external stability. He also argues that money is just an instrument and what it does – good or bad – depends on how we use it (2011).

M.A. Haneef argues in his paper that Islamic scholars have (fuqaha⁴) different views whereas some stands that the money must be either in gold or silver, while other scholars do not limit money to these two commodities (2006).

Another view regarding introducing the Gold Dinar is also negative (C. Murat, 2010). He argued ten points against this trend for the Gold Dinar to be introduced.

2. Historical Background of the Gold and Gold Dinar

One may define money as everything that could be exchanged in buying or selling transactions. The money has appeared a few thousand years ago. From that time until recent centuries money had been adopted as precious metals, cowry shells, barley, beads, and later on it was gold, silver, copper and similar.

The first coin money was from bronze and copper. Gold and silver coins were made in Lydian (current Turkey) - as early as around 560 BC, which could be classified as the earliest forms of metallic coins (Z. Hasan, 2011).

The issue of debasement of money (gold and silver) first occurred in the year 64 A.H During the Prophet s.a.w.s. (M. A . Haneef and E. R. Barakat, 2006). Muslims were using raw metal or Byzantine coins as money while for economic transactions there were used three kind of precious commodities, gold which implies Dinar, silver; representing Dirham and the copper (N. A. Siegfried, 2001).

Many verses in God's Divine Book- Qur'an proof that our Creator is encouraging mankind to use gold or silver as a medium of exchange, or the money. The next verses are from the Qur'an mentioning the gold and silver in mutual transactions:

4 Fuqaha are Islamic scholars who deal with Islamic Jurisprudence

“Amongst the People of the Scripture (i.e., the Torah) there are those who if entrusted (by a bellow Israelite) with a Qintār (a treasure of money such as a heap of gold coins) for safe-keeping, would return it upon demand. Yet amongst them there are those who if entrusted (by a Gentile, i.e., one who was not an Israelite) with a (single) Dinār (a gold coin) for safe-keeping, would not return it on demand unless the owner were to persist in demanding the return of his property. The reason for this (double standard) is because they argue that the (religious law) placed no obligation on them to be just and fair in their dealings with Gentiles. But they tell a lie against Allah (Most High), and they know full well (that it is a lie).”

وَمِنْ أَهْلِ الْكِتَابِ مَنْ إِن تَأْمَنْهُ بِقِنطَارٍ يُؤَدِّيهِ
إِلَيْكَ وَمِنْهُمْ مَنْ إِن تَأْمَنْهُ بِدِينَارٍ لَا يُؤَدِّيهِ إِلَيْكَ إِلَّا مَا دُمْتَ عَلَيْهِ
قَائِمًا ذَلِكَ بِأَنَّهُمْ قَالُوا لَيْسَ عَلَيْنَا فِي الْأُمِّيَّةِ سَبِيلٌ وَيَقُولُونَ عَلَى
اللَّهِ الْكَذِبَ وَهُمْ يَعْلَمُونَ ﴿٧٥﴾

And for Dirham,

“And they sold him for a few measly Dirham and they did so because they considered him to be of little worth.”

وَشَرَوْهُ بِثَمَنٍ بَخْسٍ دَرَاهِمَ مَعْدُودَةٍ وَكَانُوا فِيهِ مِنَ الزَّاهِدِينَ ﴿٢٠﴾

It is mentioned for many times in the Qur'an that gold and silver are referred as wealth. Those Qur'anic verses are the following: Āle 'Imrān: (3:14; 3:91), al-Tauba (9:34), Zukhruf (43:33-5; 43:71;43:53), an-Nisā (4:20), al-Insān (76:21), al-Fātir (35:33), al-Hajj (22:23), al-Kahf (18:31), al-Isrā (17:93), (I.N. Hosein, 2007, pp. 17 -24).

According to Islamic Law the Islamic Dinar is a specific weight of 22k gold (917.) equivalent to 4.25 grams. The Islamic Dirham is a specific weight of pure silver equivalent to 3.0 grams.

Umar Ibn al-Khattab established the known standard relationship between them based on their weights: "7 dinars must be equivalent to 10 dirhams." So the World Islamic Trading Organisation following the standard of caliph Umar Ibn al-Khattab (<http://www.goldcentro.com/home>)

3.Recent History: Data on Stability of Gold Prices

Any currency or commodity to be internationally recognized as medium of exchange it must be a quite stable and not extreme fluctuating. Particularly, for the gold it is crucial to know the stability of its price. Following figure, in a chronological order in a range from 1833 to early 1930s shows that the aggregate price of gold was stable amounting \$20.67 per ounce. However, a few years ahead, starting with the year of 1935, the price has begun to increase gradually up to \$35 per ounce. Later on, it has started to fluctuate even in more extreme as we

can observe a few years back to present. There are two important events that can justify those changes:

1. The Creation of Brenton Wood System
2. The Abandonment of the Brenton Woods System (A. B. B. M. Yusuf, et al., 2002)

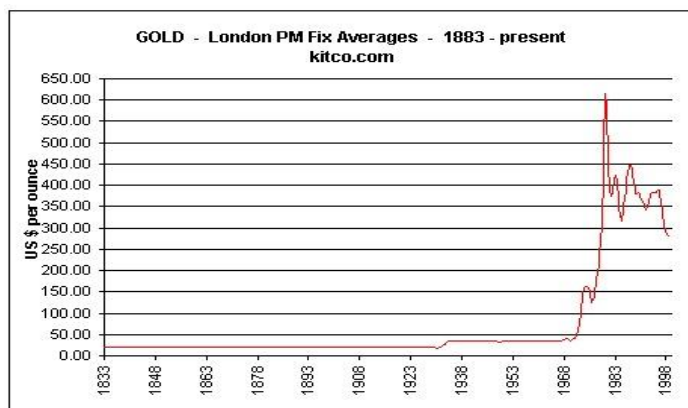


Figure 1. Stability of prices of Gold from 1833 to early 1930s (www.kitco.com, accessed from 3.2.2012)

In early 1990s we can observe that was a dramatic change in gold prices. In fact it was the most fluctuated period of time for gold prices. It could be justified of the world crises (Gulf war in 1991s, war on ex-Yugoslavia's region, Central Asia, etc.). See Figure 2.

Figure 2. Gold price from 1990-1994 (www.kitco.com, accessed from 3.2.2012)

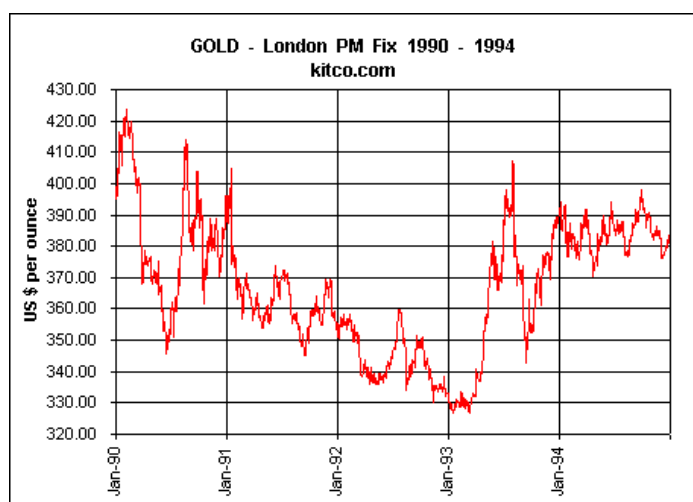
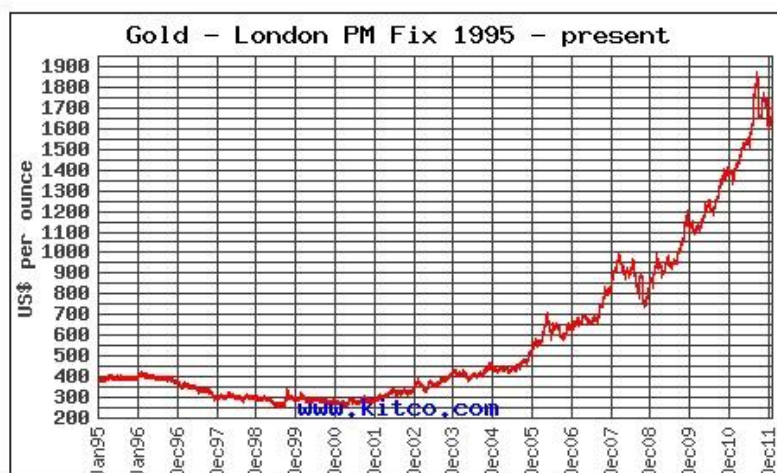


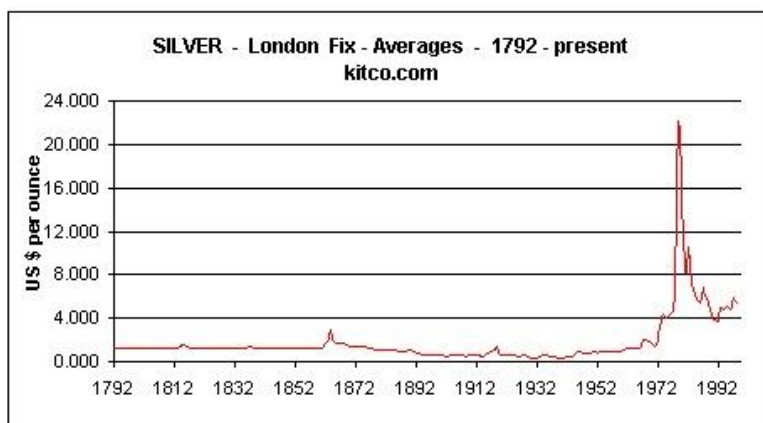
Figure 3 shows that from 1995 it was a gradual increase and decrease in gold price. However, starting from new millennium the gold price rapidly has increased. It could be justified by certain events in the world, such as World Trade Center attack in 2001, Iraq, Afghanistan, as well as other natural disasters around the globe.

Figure 3. Gold price from 1995-2012 (www.kitco.com, accessed from 3.2.2012)



As we have mentioned that silver has been described in the Qur'an as wealth and recommended to be also the medium of exchange in the trade. The following figure ensures that fact and we also may conclude that the silver has its stability over time (up to early 1970s) and its intrinsic value. Its aggregate price was quite stable throughout this period of time.

Figure 4. Stability of prices of Silver from 1792 to early 1970s (www.kitco.com, accessed from 3.2.2012)



4.Usage of Gold Dinar in International Trade: Bilateral and Multilateral Trade

Transactions in international trade between nations are done either by transferring money via current accounts of companies or bringing cash in briefcase to perform a payment. Landry money is present worldwide and it is not possible to clear it out forever. Transactions' costs are high and there is always risk which for some will be in favor while for other it will be as extra costs, known as currency exchange costs. It is also important to note that every currency must be hedged and protected from speculators which in turn derive additional costs.

Therefore, according to these facts, less wealthy countries or developing countries cannot survive in this trading arena because of all transactions related to the trade where the fiat money is involved. However, using of gold as the money or Gold Dinar is much better and protected from such issues in the bilateral and multilateral transactions.

Recent crisis in Malaysia and Indonesia, in 1997-1998, caused a turn point whereas the many Muslim and non-Muslim scholars urged to think about the Gold Dinar to be as medium of exchange between nations.

According to Meera and Larbani (2003), the central bank will play a vital role in keeping the national trade Accounts ensuring a safe place to keep the gold. In bilateral trade, let say between Malaysia and Indonesia, the total Malaysia's export to Indonesia 500 million of Gold Dinar and Malaysia has imported from Indonesia goods and services in amount of 450 million of Gold Dinar. So, Malaysia has its surplus of 50 million of Gold Dinar. In this case Indonesia needs to settle ONLY difference of 50 million of Gold Dinar to Malaysia. However, this amount Malaysia can use for the future use to settle transactions between these two countries and hence the physical transfer of the gold is not necessary. Another benefit is that exchange avoided. No exchange costs like in fiat money!

The table below shows the multilateral trade how it would be if certain countries agreed to have Gold Dinar in their mutual trade transactions:

Table 2: Gold in Multilateral Trade Arrangement (A. K. M. Meera & M. Larbani, 2003,)

Gold Dinar (million)				
Export to	Malaysia	Iran	Indonesia	Total Export
Malaysia	X	3.0	2.0	5.0
Iran	2.8	X	4.0	6.8
Indonesia	2.2	3.7	X	5.9
Total Import	5.0	6.7	6.0	17.7

Gold Dinar (million)			
	Export	Import	Net payment
Malaysia	5.0	5.0	Nil
Iran	6.8	6.7	+0.1
Indonesia	5.9	6.0	-0.1

In multilateral trade, countries who are trading in Gold Dinar may have one custodian bank, like any famous non-interest bank in the world, to keep accounting of the trade (i.e. IDB bank) (A. K. M. Meera & M. Larbani, 2003,)

5.Limitations and Further Research

As any research it has its limitations, and this paper does so. It is urged to refer more deepen to the Islamic literature to prove that Islamic money or Gold Dinar is possible and

recommended by the wholly Book –Qur'an and the hadith by the Prophet s.a.w.s. On the other hand, it is necessary to analyze all the parameters of the current world economy in order to see causes that can be replaced by Islamic alternatives such the Gold Dinar. It is necessary, indeed, for Islamic scholars as well as world's economists and experts to merge and together come up with the solution for the better future. We owe the future generations since we observe it and did little or nothing to solve current economic crises around the globe.

6.CONCLUSION

Today's world suffers from economic instability with consequences worldwide known. Recent scholars and economists recommend changes in today's economy. On one side, there are proponents of the Islamic Gold Dinar which states and support for the Gold Dinar to be introduced in the international trade. They have their reasoning and we are witnesses that a few countries, have already introduced Gold Dinar in the trade (one state in USA and in Malaysia).

On the other side, there are scholars who oppose the introduction of the Gold Dinar, arguing that there will be no change and will be no impact on the world economy. However, it is important to say that indeed the gold has many benefits over the fiat money by its nature. It is commodity and it has its intrinsic value which cannot be damaged or faded over time and since the beginning of the trade on the earth, it was known as wealth till now. We have proved by the Qur'anic verses where the Creator has stressed and recommended to use the gold and silver as medium of exchange in daily transactions. As A. K. M. Meera & M. Larbani (2003) said, instruments backed by gold are vulnerable for easy abuse, which brought about the failure of the gold standard. In other words whatever currency has been backed in gold, or in any other currency it is not as gold backed by itself. It is protected from speculators as well as other abuses. Upon all of this, if we follow the God's Will, we will definitely have prosperity, described as just and comfortable for all.

Finally, concluding remarks would be based on all said so far. Therefore, main factor in our success, in introducing Gold Dinar in international trades (bilateral or multilateral) is that only if all nations will be willing to back to the base (to use the gold in trades' transactions) to use the gold as their monetary system and to let the gold to be freely traded in commodity market.

REFERENCES

- [1] I. N. Hosein (2007) *The Gold Dinār And Silver Dirham: Islam and The Future of Money*, Masjid Jāmi'ah, City of San Fernando, Trinidad and Tobago.
- [2] N. A. Siegfried (2001) *Concepts of Paper Money in Islamic Legal Thought*, Arab Law Quarterly, University of Hamburg, Kluwer Law International. Printed in the Netherlands.
- [3] Z. Hasan (2008) *Ensuring Exchange Rate Stability: Is Return to Gold (Dinar) Possible?*, Professor, Department of Economics, Faculty of Economics and Management Sciences

International Islamic University of Malaysia, Selangor Dar-ul-Ehsan

- [4] Z.Hasan (2001-2002) Recent Financial Crisis in Malaysia: Response, Results, Challenges, "The Indian Economic Journal, Vol. 49 No.1, pp.28-49
- [5] Z. Hasan (2010) Dubai Financial Crisis: Causes, Bailout and After, Journal of Islamic Banking & Finance, Vol. 27, No. 3, pp. 47-55
- [6] <http://www.cato.org/pubs/pas/pa017.html> (accessed from 31.01.2012)
- [7] <http://208.43.71.196-static.reverse.softlayer.com/english/politics/3410/429108.html> (accessed from 02.02.2012)
- [8] Z. Hasan (2011) (unpublished), Money creation and control from Islamic perspective, Department of Economics & Governance, INCEIF: Global University of Islamic Finance
- [9] M. A . Haneef and E. R. Barakat (2006) (A.D/1427 A.H), Must Money Be Limited to Only Gold and Silver?: A Survey of Fiqhi Opinions and Some Implications, JKAU: Islamic Econ., Vol. 19, No. 1, pp: 21-34
- [10] C. Murat (2010): The Case Against the Islamic Gold Dinar, INCEIF, Kuala Lumpur, Unpublished.
- [11] A. B. B. M. Yusuf, et al. (2002) The Implementation of Gold Dinar is It the End of Speculative Measures?, Journal of Economic Cooperation, 23-3, pp. 71-84
- [12] Reuters. "Malaysia Plans To Initially Use Gold Dinar Within Small Group" The Star, 2/5/2002.
- [13] A. K. M. Meera & M. Larbani (2003) The Gold Dinar: The Next Component in Islamic Economics, Banking and Finance, International Conference on Banking, Monash University, Prato, Italy.
- [14] A.K.M. Meera (2002) The Islamic Gold Dinar, Pelanduk Publications, Kuala Lumpur,
- [15] <http://www.goldcentro.com/home> (accessed from 25th January 2012)
- [16] www.kitco.com (accessed from 4.2.2012)